



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.**

of

Murray, Utah

as of

December 31, 2008



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March 18, 2010

Honorable Neal T. Gooch, Acting Insurance Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
Virginia State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Honorable Christina Urias, Director  
Secretary, Western Zone, NAIC  
Arizona Department of Insurance  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, Arizona 85018-7269

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.  
Murray, Utah

hereinafter referred to in this report as the Company or EHPL, and the following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

### Period Covered by Examination

We have performed our full scope multi-state financial examination of Educators Health Plans, Life, Accident and Health, Inc. The Utah Insurance Department (Department) represented the Western Zone. This examination covers the period of January 1, 2006 through December 31, 2008.

### Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The

Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The last financial examination, a limited scope examination, was completed as of July 30, 2006, shortly after the Company's start of business. All issues found during the prior examination have been resolved, except for the recurrence of various disclosure and presentation errors in the filed annual statements, as identified in the examination reports under ACCOUNTS AND RECORDS.

On September 4, 2009, the Company filed an amendment to the 2008 annual statement for the following corrections:

- Unrealized investment losses were re-classified to realized losses, in accordance with NAIC SSAP No. 26(9) for other than temporarily impaired (OTTI) assets in the amount of \$87,000.
- Premium and service income was corrected, because the Company failed to record this income from the uninsured plans in the amounts of \$698,632 and \$487,276 respectively. The first quarter 2009 statements were also amended to correctly report this income.

The current examination findings are as follows:

- A correction was made to the jurat page of the statement of all current directors.

### **SUBSEQUENT EVENTS**

In late 2009, the controller was terminated, and replaced with two controllers concurrent with a restructuring of the accounting staff to have delineation of responsibilities between the "commercial" or for-profit, and the "education" or non-profit insurance entities. The oversight of the premium billing process will be split between the two controllers based upon their respective companies. The responsibilities for accounts receivable and investments will also be divided between the two controllers. This change should also allow for greater oversight of the ASO/ASC reconciliations.

During late 2009, Educators Mutual Insurance Association, the parent and service provider began implementing and testing a new claims system under contract from an outside software vendor.

On December 17, 2009, Andy Galano, president, announced his plans to retire effective March 31, 2010. EMIA's Board of Directors anticipates a candidate will be selected prior to Mr. Galano's departure.

## **COMPANY HISTORY**

### General

The Company was incorporated on November 9, 2005 in the state of Utah, and is a wholly-owned subsidiary of Educators Mutual Insurance Association (EMIA), for the purpose of offering insurance products to other than school and governmental employer groups.

There were no amendments to the Company's articles of incorporation or bylaws since the prior examination.

### Dividends and Capital Contributions

The Company did not declare or pay dividends during the examination period.

### Mergers and Acquisitions

The Company was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

## **CORPORATE RECORDS**

Minutes of the meetings of the shareholder, directors, and committees were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors were properly informed of and participated in Company affairs. Generally, at each annual Board of Directors meeting a detailed report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of shareholder, directors, and committees adequately approved and supported the Company's transactions and events. On January 18, 2007, the Utah Insurance Department limited scope examination report as of July 31, 2006, dated September 26, 2006, was distributed to the board, as required by U.C.A. § 31A-2-204(8).

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

The Company's bylaws set the number of directors to be at least three and no more than twenty-one. Directors are elected at the annual meeting of the shareholders.

2008: The following persons served as directors of the Company as of December 31,

<b><u>Name and Location</u></b>	<b><u>Principal Occupation</u></b>
Arlene Arnold Orem, Utah	Uniserv Director Eastern Utah Uniserv
Michael Evans Fillmore, Utah	Teacher Millard School District
James C. Fontaine Salt Lake City, Utah	Retired CFO Deseret Mutual Benefit Administrators
Michael R. Francis Orem, Utah	Controller Utah Valley University
Paul R. Gottfredson Ephraim, Utah	Business Administrator South Sanpete School District
Wallace G. Harmer Salt Lake City, Utah	Retired Business Administrator Salt Lake School District
Michael W. Hepner West Jordan, Utah	Executive Director Utah School Employees Association
Timothy Leaman Paradise, Utah	Teacher Cache County School District
Mark Mickelsen West Jordan, Utah	Executive Director, Utah Education Association
Roger A. Pate Orem, Utah	Physical Facilities Supervisor Alpine School District
Randy R. Smart Sandy, Utah	Attorney Smart, Schofield, Shorter & Lunceford
James M. Thompson Price, Utah	Teacher Carbon School District
Scott C. Thornton Centerville, Utah	Chief Actuary Deseret Mutual Benefit Administrators
Richard R. Tranter Salt Lake City, Utah	Superintendent Murray School District

Delora I. Wight  
Laketown, Utah

Teacher  
Rich School District

There were several committees of the board of directors as of December 31, 2008, the most significant of which are the following:

**Executive Committee**

Wallace G. Harmer, Chair  
Rolando I. Galano  
James C. Fontaine  
Michael W. Hepner  
Michael R. Francis

**Board Review Committee A**

Michael W. Hepner, Chair  
Paul R. Gottfredson  
Randy R. Smart  
Richard R. Tranter  
Delora I. Wight

**Audit Committee**

Michael R. Francis, Chair  
Arlene Arnold  
Wallace G. Harmer  
Roger A. Pate  
James M. Thompson

**Board Review Committee B**

Michael R. Francis, Chair  
Arlene Arnold  
Wallace G. Harmer  
Roger A. Pate  
James M. Thompson

**Finance & Risk Management Committee**

James C. Fontaine, Chair  
Michael Evans  
Timothy Leaman  
Scott C. Thornton

**Board Review Committee C**

James C. Fontaine, Chair  
Michael Evans  
Timothy Leaman  
Scott C. Thornton

**Legislative Committee**

Michael W. Hepner, Chair  
Paul R. Gottfredson  
Randy R. Smart  
Richard R. Tranter  
Delora I. Wight

Officers of the Company as of December 31, 2008, were the following:

**Name and Location**

**Title and Principal Occupation**

Rolando I. Galano  
Jennifer Q. Niesen  
David S. Glauser  
Steven C. Morrison  
Joseph H. Campbell

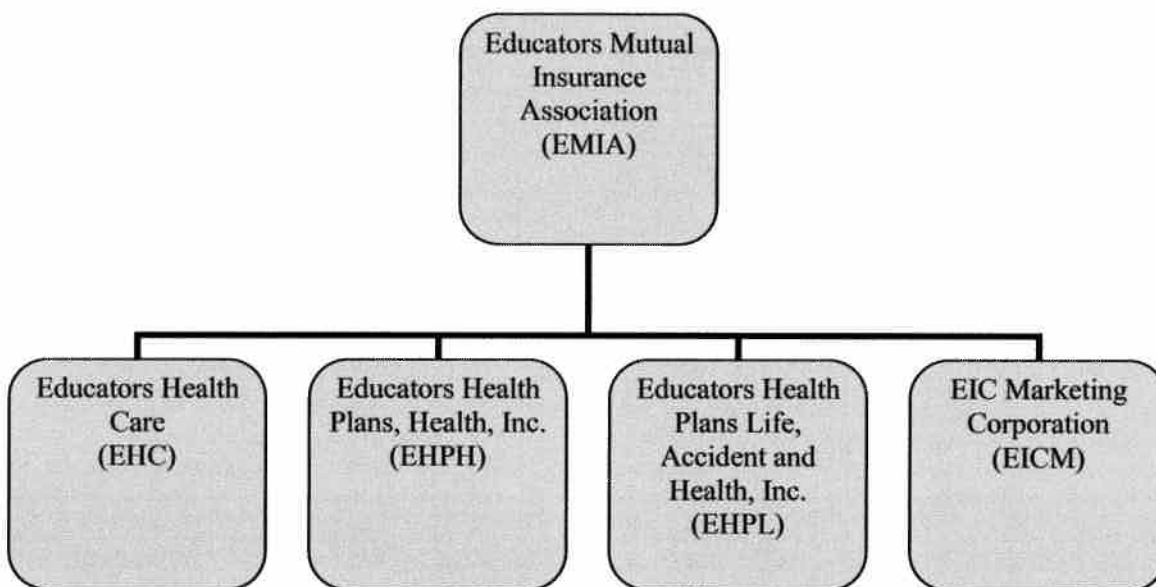
President/Chief Executive Officer  
Secretary/Chief Operating Officer  
Treasurer/Chief Financial Officer  
Vice President  
Vice President

Tiffany Bermingham	Vice President
Christie H. Hawkes	Vice President
Lavern K. Zaloba	Vice President

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

### Holding Company System

The Company is wholly owned and controlled by its parent Educators Mutual Insurance Association. An organization chart illustrating the holding company system follows:



The ultimate parent, EMIA is a Utah domestic non-profit mutual life insurance company organized in 1935, owned one hundred percent by its member policyholders. Educators Health Care (EHC) is a Utah non-profit health maintenance organization formed in 1979 to provide medical and dental insurance products to school districts and other governmental employee groups. Educators Health Plans, Health, Inc. (EHPH) and Educators Health Plans Life, Accident and Health, Inc. (EHPL) were both formed in 2006 as Utah for-profit insurers to provide insurance products to non-governmental employee groups. EIC Marketing Corporation (EICM) is a for-profit brokerage firm organized to market insurance and employee benefit products.

### Transactions with Affiliates

Effective February 1, 2006, the Company entered into a management agreement with its parent EMIA. The management agreement was approved by the Department on May 15, 2006. EMIA provides marketing and administrative services to EHPL, including financial and accounting, enrollment, billing, and claims processing. The management agreement specifies the fee structure and settlement requirements. In consideration for



services provided the Company pays EMIA a fee based on fifteen percent (15%) of premium income. During 2008, the reported fees paid by EHPL under the management agreement were \$788,615.

### **FIDELITY BONDS AND OTHER INSURANCE**

As of the examination date, the Company participated in a fidelity bond with EMIA and its insurance subsidiaries. The minimum fidelity coverage suggested by the NAIC for EMIA and subsidiaries is not less than \$600,000. As of the examination date, EMIA and its insurance subsidiaries were covered by a fidelity bond of \$800,000, which met the NAIC suggested minimum. The Company was also included on general liability policies, including the Errors & Omissions policy and Directors' & Officers' liability policy.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and thus had no employee benefit programs or life and health insurance plans for employees. All personnel working on behalf of the Company are employees of the parent, and provide services pursuant to an administrative services agreement.

### **TERRITORY AND PLAN OF OPERATION**

As of the examination date the Company was authorized to conduct life, annuity, and accident and health business in the states of Arizona and Utah. No life or annuity policies were issued during the examination period. The company issued comprehensive medical, dental, vision and waiver of premium policies.

The Company's accident and health line of business is primarily self-funded Administrative Services Only (ASO) and Administrative Services Contract (ASC) plans, with specific and aggregate stop loss insurance coverage available. Although a few groups retained fully insured accident and health plans.

The Company marketed its products through brokers in the state of Utah and Arizona. In addition, the Company provided seminars, training sessions, and faculty meetings with employer groups. The Company also had an advisory panel consisting of some brokers throughout the state that met to discuss products, strategies and issues.

The Company was subsequently licensed to transact health insurance business with the State of Nevada on August 19, 2009.

### **GROWTH OF COMPANY**

The Company has experienced considerable growth since inception. No significant comments related to growth trends.

The following exhibit depicts the Company's financial results throughout the examination period:

	2008	2007	2006
Net admitted assets	7,631,288	4,294,707	2,502,993
Total liabilities	4,477,797	2,216,744	303,735
Total capital stock & surplus	3,153,491	2,077,963	2,199,258
Net income	1,086,754	(108,761)	22,722
Direct - Total premiums	5,659,428	4,035,161	460,325
Net Premium	5,411,008	3,867,597	460,325
Net Premium/ Surplus Ratio	171.59%	186.12%	20.93%

### **MORTALITY AND LOSS EXPERIENCE**

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed annual statements and from examination results. Since inception the Company has not written life policies.

#### **Accident and Health**

	2008	2007	2006
Premiums earned	5,677,687	4,010,358	443,089
Incurred claims amount	4,525,506	3,557,022	350,746
Change in contract reserves	0	0	0
Loss ratio	80%	89%	79%
Number of policies	282	279	117
Number of covered lives	24,118	17,651	10,894
Member months	267,205	186,846	88,799

### **REINSURANCE**

#### Ceded

At December 31, 2008, the Company was covered by a group medical excess of loss agreement with Munich Re, for the Company's fully insured, small group health policies, or medical stop loss policies. The contract provides 100% stop loss of ultimate net loss per each covered person per each agreement year, after retention of the first \$200,000, up to the level of \$2,500,000, not to exceed \$2,300,000 assumed by reinsurer.

### **ACCOUNTS AND RECORDS**

The Company utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers.

A trial balance, as of December 31, 2008, was prepared from the Company's general ledger.

An independent certified public accounting firm audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2008 were made available for the examiners' use.

As of December 31, 2008, the assets in the statutory custodial account deposit held for the benefit of all policyholders, were not secured by a compliant custodial agreement as required by Utah Code Annotated (U.C.A.) § 31A-4-108. During early 2009, prior to start of the financial examination the Company and the Department were working together to resolve this issue. A compliant custodial agreement was executed on April 27, 2009, meeting all requirements of Utah Administrative Code (U.A.C.) Rule R590-178. The Board of Directors approved the agreement on May 28, 2009.

We noted certain sections of the Company's financial statements that lacked proper reporting or disclosure, as required by the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. These sections are discussed as follows:

- The Company's financial statements from 2007 through second quarter 2009 incorrectly disclosed two directors on the jurat page. The correction was made to the third quarter 2009 financials, as verified during examination.

We recommend that the Company take care to correctly disclose all active directors on its financial statements, in accordance with U.C.A. § 31A-4-113 and the NAIC Annual and Quarterly Statement Instructions - Life and Health.

- On August 5, 2009, management contacted the Department regarding errors related to the Company's premium income from its uninsured plans. The Company failed to record and report premium and service income from the uninsured plans in the amounts of \$698,632 and \$487,276 respectively. It was agreed that the Company would re-file its 2008 annual statements and the first quarter 2009 statements. The Department also granted approval for an extension of time to correct and file the second quarter 2009 statements.
- The Company did not report other than temporarily impaired (OTTI) assets as realized losses in accordance with the NAIC SSAP #26(9). These realized losses of \$87,000 were included with the 2008 audited financial statements. On August 25, 2009, the Department requested the Company amend its 2008 annual statements to correspond with the audited financial statements.

The amended 2008 annual and first quarter 2009 statements, as well as the second quarter 2009 statements were filed on September 4, 2009.

The examination recommends that the Company implement a process of training and review that will enhance the accuracy of the financial statements, and adherence to the NAIC Annual and Quarterly Statement Instructions and the Statements of Statutory Accounting Principles.

### **STATUTORY DEPOSITS**

The Company's statutory deposit requirement was \$400,000, pursuant to U.C.A. § 31A-5-211(2). The examination confirmed that the Company adequately maintained the following statutory deposits with the State of Utah, in accordance with U.C.A. § 31A-4-105.

<u>State</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	FHLB, 4.25%, mat 6/11/10	\$470,000	\$489,523	\$487,785
Total	Deposits for the Benefit of All Policyholders	\$470,000	\$489,523	\$487,785

### **FINANCIAL STATEMENTS**

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.  
BALANCE SHEET (ASSETS)  
as of December 31, 2008

	Net Admitted Assets
Bonds	\$ 1,806,275
Preferred stocks	77,731
Common stocks	98,978
Cash and short-term investments	3,276,151
Contract loans	0
Receivables for securities	0
Investment income due and accrued	27,138
Uncollected premiums and agents' balances	23,596
Amounts recoverable from reinsurers	
Amounts receivable related to uninsured plans	2,040,684
Amounts receivable from parent, subsidiaries and affiliates	264,078
Health care and other amounts receivable	16,657
Net deferred tax asset	0
Electronic data processing equipment and software	0
Aggregate write-ins for other than invested assets	0
Separate accounts	0
Total assets	<u>\$ 7,631,288</u>

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.  
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)  
as of December 31, 2008

LIABILITIES

Aggregate reserve for accident and health contracts	47,097
Contract claims - Accident and health	800,802
Premiums and annuity considerations	261,306
Interest maintenance reserve	(5,763)
General expenses due or accrued	4,279
Current federal and foreign income taxes	604,188
Remittances and items not allocated	8,082
Asset valuation reserve	29,621
Payable to parent, subsidiaries and affiliates	54,754
Liability for amounts held under uninsured plans	2,646,276
Aggregate write-ins for liabilities	27,155
Total liabilities	<u>\$4,477,797</u>

SURPLUS, AND OTHER FUNDS

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	1,189,081
Unassigned funds (surplus)	<u>964,410</u>
Total capital and surplus	<u>\$3,153,491</u>
 Total liabilities, surplus and other funds	 <u><u>\$7,631,288</u></u>

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.  
SUMMARY OF OPERATIONS  
for the Year Ended December 31, 2008

	<u>Current Year</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 6,109,640
Net investment income	126,592
Amortization of interest maintenance reserve (IMR)	(181)
Aggregate write-ins for miscellaneous income	41,085
Total revenues	<u>\$ 6,277,136</u>
Disability benefits	4,525,506
Increase in aggregate reserves for life and accident and health contracts	<u>(431)</u>
Total benefits and reserves	<u>\$ 4,525,075</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	933,365
General insurance expenses	(1,013,558)
Insurance taxes, licenses and fees, excluding federal income taxes	55,231
Total expenses	<u>\$ (24,962)</u>
Net gain from operations before dividends and federal income taxes	1,777,023
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends and before federal income taxes	1,777,023
Federal and foreign income taxes incurred	<u>603,168</u>
Net gain from operations after dividends and taxes and before realized capital gains or (losses)	1,173,855
Net realized capital gains (losses)	<u>(87,102)</u>
Net income (loss)	<u><u>\$ 1,086,754</u></u>

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS  
2006 through 2008

	<u>2006</u>	<u>2007</u>	<u>Per Exam 2008</u>	<u>Notes</u>
Capital and surplus prior reporting year	\$0	\$2,199,258	\$2,077,963	
Net income or (loss)	22,722	(108,762)	1,086,754	
Change in nonadmitted assets	-	(2,656)	(4,029)	
Change in asset valuation reserve	(12,545)	(9,877)	(7,199)	
Capital changes: Paid in	1,000,000	-	-	
Surplus adjustments: Paid in	1,189,081	-		
Rounding	-			
Net change in capital and surplus	<u>2,199,258</u>	<u>(121,295)</u>	<u>1,075,526</u>	
Capital and surplus end of reporting year	<u>\$2,199,258</u>	<u>\$2,077,963</u>	<u>\$3,153,489</u>	(1)

**COMMENTS ON FINANCIAL STATEMENTS**

(1) Capital and surplus \$3,153,489

The Company's capital and surplus was determined to be \$3,153,489, the same as reported in the Company's annual statement as of December 31, 2008.

The Company's minimum capital requirement was \$400,000 as defined in U.C.A. § 31A-5-211(2)(a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital, per examination, of \$3,183,112, which exceeded the company action level risk-based capital (RBC) requirement of \$666,270 by \$2,516,842.

**SUMMARY OF RECOMMENDATIONS**

The examination recommends that the Company, at the group level, implement a program of training and process review to improve compliance to NAIC Statement Instructions, and the Statutory Accounting Principles, as adopted by Utah Code.



## ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phase of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Donald Catmull, CFE, co-reviewer, representing the Department, supervised the examination. Aaron Phillips, CFE, and Teresa Trusty, APIR, representing the Department, participated in the examination. Brandon Thomas, HISP, of Huff, Thomas and Company performed the information systems review. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Association.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Carolyn Maynard".

Carolyn Maynard, CFE, Examiner-in-Charge  
Huff, Thomas & Company  
Representing the Utah Insurance Department